

RD AN No. 3509 (1980-D)
January 20, 2000

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors
Guaranteed Rural Housing Coordinators

FROM: James C. Kearney (Signed by James C. Kearney)
Administrator
Rural Housing Service

SUBJECT: Guaranteed Rural Housing (GRH) Program
Loss Mitigation - Loan Modifications

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice is to clarify RD Instruction 1980-D, paragraph 1980.370 (c). It will also provide guidance on lender documentation requirements associated with loan modification submissions for Agency concurrence.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

Agency concurrence is required for a lender to complete a loan modification in accordance with RD Instruction 1980-D, paragraph 1980.370 (c). However, this section of the regulation does not provide guidance to the lender or Agency staff concerning modification requirements or documentation. Concurrently with issuance of this Administrative Notice, participating lenders are being notified of the criteria for loan modification and documentation suggested for submission to Rural Development for concurrence. Refer to Attachment 1 to this AN for lender requirements regarding borrower file documentation as well as the documentation to be

EXPIRATION DATE: September 30, 2000

FILING INSTRUCTIONS:
Preceding Rural Development
Instruction 1980-D

submitted to the Agency. When requesting Agency concurrence on a loan modification, the lender may use the Servicing Workout Plan and Workout Summary included with their notification. In place of these two documents, a lender may choose to use a form that is similar, Fannie Mae or Freddie Mac approved, and captures the information required for Agency consideration. We believe the two Agency developed documents, or similar form, are generally adequate for an Agency decision to concur or deny.

By recommending a loan modification, the lender is stating that in their judgment the borrower has a reasonable chance to resume making all scheduled loan payments as agreed. Upon receipt of a loan modification request, the Agency reviewer should make a determination that the necessary information has been provided and that it supports the lender's recommendation. Delinquent borrowers involved in modifications are not required to meet the loan underwriting standards applied to new GRH loans, including job stability, repayment ratios, and credit history. Lenders, through their modification analysis, should provide the Agency review official, however, with sufficient summary documentation to demonstrate that the borrower's financial circumstances indicate that borrower loan obligations may be met in a timely manner.

A modification that results in a loan being successfully repaid results in substantial benefits to the homeowner, the lender, and the Agency. Agency reviewers should approve all reasonable requests submitted. Borrowers that have a reasonable chance for succeeding should be given the opportunity to resume timely loan payments. Lenders should be encouraged to pursue loan modifications as a means to cure GRH delinquencies.

A timely review of the modification request is an essential element in the process. Agency staff must be mindful that a lender may have to repurchase this loan from an investor. Therefore, the Agency should respond, by concurrence or denial of the modification, within two days of receipt of the modification request.

If, in unusual situations, additional documentation is required to support the Servicing Workout Plan and Workout Summary, the request should be made by telephone or fax. Execution of the Servicing Workout Plan, or similar document, is sufficient for concurrence. A conformed copy will be retained in the Agency's file. A separate letter, including appeal rights, is required when the request is denied.

Reporting

Currently, the accounting system will not permit us the capture information regarding GRH loan modifications. Until we have automated capabilities, the attached "Loan Modification Activity Report" must be submitted to the National Office by the 5th business day of each month. Only those loan modifications that the Agency has issued concurrence should be reported. However, since no information has been gathered to date, it is necessary to provide this report for all completed loan modifications with the first report submitted. We cannot over-emphasize the importance of this reporting. We will be unable to determine the lender's performance and the risk to the Agency without timely and consistent reporting.

If you have any comments or questions, please contact Sue Smith or any member of the Guaranteed Rural Housing Loan Division at (202) 720-1452.

Attachments

Attachments not Automated.